Supreme Court, U. S.
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IN THE

Supreme Court of the United States

October Term, 1979

No. 79-1533

W.R. GRACE & CO., INC., a corporation,

Petitioner,

vs.

E-T INDUSTRIES, INC. and PYRAMID ENTERPRISES,

Respondents.

W. R. GRACE & CO., INC., a corporation,

Petitoner,

vs.

WESTERN U.S. INDUSTRIES, INC., a corporation,

Respondent.

Petition for a Writ of Certiorari to the United States Court of Appeals for the Ninth Circuit.

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SUBJECT INDEX

	Page
Opinions Below	1
Jurisdiction	1
Questions Presented	2
Statement of the Case	3
Reasons for Granting the Writ	7
Conclusion	12

TABLE OF AUTHORITIES CITED

Cases	Page
Acme Precision Products v. American Alloys Corp., 422 F.2d 1395 (8th Cir. 1970)	9
Continental Ore Co. v. Union Carbide & Carbon Corp., 370 U.S. 690 (1962)	5
International Rectifier Corp. v. Pfizer, Inc., 186 U.S.P.Q. 511 (D. Minn. 1975)	8
Pfizer, Inc. v. International Rectifier Corp., 538 F. 2d 180 (8th Cir. 1976), cert. denied, 429 U.S. 1040 (1977)	3, 7, 8, 9
Schnadig Corp. v. Gaines Manufacturing Co., 494 F.2d 383 (6th Cir. 1974)	7
Woodmont, Inc. v. Daniels, 274 F.2d 132 (10th Cir. 1959)	9
W.R. Grace & Co., Inc. v. Western U.S. Industries, Inc., 187 U.S.P.Q. 40 (C.D. Cal. 1975)	1, 3, 4, 5
Xerox Corp. v. Dennison Mfg. Co., 322 F.Supp. 963 (S.D.N.Y. 1971)	11

Regulations	
Code of Federal Regulations, Title 37, Sec. 1.56(a)	10

Rules	
Federal Rules of Civil Procedure, Rule 39(b)	3
Federal Rules of Civil Procedure, Rule 41(b)	3
Federal Rules of Civil Procedure, Rule 50(a)	3

Statutes	Page
United States Code, Title 28, Sec. 1254(1)	2
United States Code, Title 35, Sec. 285	5

Textbooks	
Restatement (Second) of Agency, Sec. 256	9
Restatement (Second) of Agency, Sec. 272	9
Restatement (Second) of Agency, Sec. 275, Comment b	9

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WESTERN U.S. INDUSTRIES, INC., a corporation,
Respondent.

Petition for a Writ of Certiorari to the United States Court of Appeals for the Ninth Circuit.

Petitioner W.R. Grace & Co., Inc. ("Grace") prays that a writ of certiorari issue to review the opinion and judgment of the United States Court of Appeals for the Ninth Circuit in these consolidated cases.

Opinions Below.

The opinion of the Court of Appeals appears at 608 F.2d 1214 (9th Cir. 1979). The District Court's opinion is unofficially reported at 187 U.S.P.Q. 40 (C.D. Cal. 1975).

Jurisdiction.

The Ninth Circuit's judgment was entered on October 9, 1979. A timely petition for rehearing *en banc* was

denied by the Court of Appeals on December 26, 1979. This Court has jurisdiction to review the judgment below by writ of certiorari pursuant to 28 U.S.C. §1254(1).

Questions Presented.

This Petition presents an important question of law which has far-reaching ramifications for every corporation which seeks to obtain and enforce United States letters patent, namely:

> Can a corporation be deprived of its right to enforce a presumptively valid patent *as a matter of law* solely on the basis of an inaccurate statement to the Patent Office where
>
> (1) none of the corporation's agents or employees, including the official who made the statement, acted in bad faith or even with calculated recklessness; and
>
> (2) the information inadvertently omitted would not have automatically established the patent's invalidity?

The Ninth Circuit answered this question affirmatively by adopting a standard of strict corporate liability for innocent misstatements before the Patent Office. Under the Court of Appeals' ruling, so long as someone, somewhere in a corporation, possesses information which is mistakenly omitted from a document filed during the patent application process, that knowledge is imputed to the corporation; and the corporation itself, as a separate legal entity, is *ipso facto* guilty of inequitable conduct *as a matter of law*—even though none of the individuals, through which the corporation acts, is personally guilty of any misconduct. This holding—which would have drastic consequences for corporate patent owners in general—is in direct conflict with the rule in the majority of other Circuits that the

standard for inequitable conduct before the Patent Office "is not one of strict liability for innocent or even negligent omissions or misstatements," and that "to result in refusal to enforce a patent, the misconduct must be accompanied by 'some element of wrongfulness, willfulness or bad faith.'" *Pfizer, Inc. v. International Rectifier Corp.*, 538 F.2d 180, 186 (8th Cir. 1976), *cert. denied*, 429 U.S. 1040 (1977). We respectfully urge, therefore, that *certiorari* be granted to resolve this important question of law.

Statement of the Case.

This Petition arises out of two infringement suits brought by Grace to enforce a design patent on a custom automobile wheel—one against Western U.S. Industries, Inc. (the *Western* action) and the other against two related companies, E-T Industries, Inc. and Pyramid Enterprises, Inc. (the *E-T* action). In both actions, defendants alleged, *inter alia*, that Grace's patent was unenforceable because of inequitable conduct before the Patent Office.

While the cases were consolidated for trial purposes, they were tried—over Grace's objection—to different fact finders: the *E-T* action to the trial judge, and the *Western* action to the jury.[1] At the close of Grace's evidence, the trial judge entered judgment for defendants in the *E-T* action under Fed. R. Civ. P. 41(b), and directed a verdict for defendant in the *Western* action under Fed. R. Civ. P. 50(a). Both dismissals were grounded in part on the trial judge's finding that Grace was "guilty of unclean hands and/or fraud in

[1]Although Grace had demanded a jury trial in both cases, its demand in the *E-T* action came more than 10 days after the last pleading was filed. Accordingly, Grace moved for a jury trial of the *E-T* action under Fed. R. Civ. P. 39(b). The District Court, declining to exercise its discretion, denied Grace's motion.

[its] conduct before the Patent Office . . . ." *W.R. Grace & Co., Inc. v. Western U.S. Industries, Inc.*, 187 U.S.P.Q. 40, 44 (C.D. Cal. 1975).

One of the principal bases for this finding—and the only one addressed by the Court of Appeals on appeal—was the submission of an affidavit to the Patent Office by Floyd Merritt, president of Grace's custom wheel division. In support of Grace's claim that the commercial success of its patented design was due primarily to its inherent appeal and novelty, the Merritt affidavit stated:

> "Our *major* advertising so far has been a one-page ad in *Car Craft* [magazine], when we first offered the Wire Mag wheel, in 1972." (Emphasis added).

The Merritt affidavit was submitted along with five affidavits by distributors of the Grace wheel, each stating that "[w]e [the distributors] have no particular campaign as such for any of these wheels."

The accuracy of the distributor affidavits was not questioned at trial. With respect to the Merritt affidavit, however, the evidence revealed that Grace had run several magazine advertisements for its Wire Mag wheel. While Mr. Merritt admitted at trial that his affidavit did not accurately reflect all of the Wire Mag advertisements, Grace sought to introduce evidence about the circumstances surrounding the affidavit's preparation, including Mr. Merritt's understanding of the word "major" and his personal misunderstanding of his subordinates' advertising reports. The District Court, however, excluded this evidence, ruling that Mr. Merritt's state of mind and intent were legally irrelevant to

the issue of inequitable conduct before the Patent Office. (Tr. at 644, 791, 808). Nevertheless, having thus excluded evidence highly pertinent to the factual question of *scienter,* the trial judge proceeded to find in its directed verdict ruling, that Mr. Merritt had personally acted in "bad faith" in signing his affidavit, and that such misconduct disabled Grace from enforcing its design patent. (187 U.S.P.Q. at 44). To add insult to injury, the District Court, invoking 35 U.S.C. §285, awarded attorney's fees against Grace on the basis of this finding.

On appeal, the Ninth Circuit declined to affirm the trial judge on the basis of his factual finding that Mr. Merritt had personally engaged in bad-faith conduct—a result which was hardly surprising given the District Court's exclusion of state-of-mind and intent evidence and the well-settled rule that on a directed verdict motion the court is "bound to view the evidence in the light most favorable to [the plaintiff] and to give [him] the benefit of all inferences which the evidence fairly supports, even though contrary inferences might reasonably be drawn." *Continental Ore Co. v. Union Carbide & Carbon Corp.*, 370 U.S. 690, 696 (1962). Nor did the Court of Appeals agree with the trial judge that the intent was irrelevant to the inequitable conduct doctrine. Nevertheless, the Ninth Circuit affirmed the judgment below on an unprecedented legal theory which had neither been briefed nor argued in the District Court or on appeal—that even assuming, as a matter of fact, "Mr. Merritt himself harbored no doubts about the truth of his affidavit" (608 F.2d at 1219), Grace was still guilty of misconduct before the

Patent Office *as a matter of law*. The Court of Appeals' *ratio decidendi* was as follows:

> "Merritt admits he erred in the affidavit, but insists it was only because he personally misunderstood his subordinates' reports about the advertising. Grace thus argues that there was a jury question presented on scienter. It is important to remember, however, that the plaintiff and patent holder here is not Merritt, but a corporation, Grace. . . . The evidence was undisputed that *some* agent of Grace had to know about the corporation's advertising for the wheels; thus, Grace must be said to have known it. And even if we assume that Merritt himself harbored no doubts about the truth of his affidavit—a dubious assumption on this record—the corporation, which knew the truth and had ample reason to know of Merritt's actions and statements, must be said as a matter of law to have known that the statements were false." (608 F.2d at 1218-19; emphasis in original).

Solely on this basis, the Ninth Circuit concluded that Grace was chargeable with fraud on the Patent Office "as a matter of law," and affirmed not only the judgment of non-enforceability, but also the award of attorney's fees. (*Id.* at 1219).

REASONS FOR GRANTING THE WRIT.

In essence, the Court of Appeals in this case adopted a theory of strict corporate liability for innocent misstatements to the Patent Office—thus enabling the Court to sidestep the issue of patentability altogether. In a nutshell, the Ninth Circuit held that a corporation is disabled as a matter of law from ever enforcing a presumptively valid patent—even if every one of its employees acted honestly and in good faith—so long as "some agent," somewhere in the corporation, had relevant information which was innocently omitted from the prosecution of the patent application. Put somewhat differently, the Court of Appeals found that a corporation is greater than the sum of its parts; that although no employee of the corporation is guilty of wrongful conduct or even calculated recklessness during the patent application process, the corporation itself can still be guilty of defrauding the Patent Office. We are aware of no other case which has ever premised a finding of inequitable conduct, much less fraud on the Patent Office, on such a theory of strict liability. On the contrary, the Ninth Circuit's holding is in direct conflict with the Eighth Circuit's decision in *Pfizer, Inc. v. International Rectifier Corp.*, 538 F.2d 180 (8th Cir. 1976), *cert. denied*, 429 U.S. 1040 (1977), and with the majority of other Circuits which have uniformly rejected strict liability for innocent or even negligent omissions or misstatements as a basis for denying enforcement of an otherwise valid patent. ***E.g.***, *Schnadig Corp. v. Gaines Manufacturing Co.*, 494 F.2d 383, 393-94 (6th Cir. 1974).

The issue before the Eighth Circuit in *Pfizer* was whether the district court had improperly granted summary judgment for defendant in a patent infringement suit on the ground that the patentee had been guilty of

fraud or inequitable conduct before the Patent Office. The district court in *Pfizer* had imposed upon the patentee an absolute obligation "to disclose any fact that 'may be relevant to an issue of patentability,' " and had held—like the Court below here—that the patentee's "claims of good faith are immaterial and do not create genuine issues of fact." (538 F.2d 185-86).[2]

On appeal, the Eighth Circuit flatly rejected this strict liability concept as "impos[ing] an unworkable standard of conduct upon the patent applicant and expand[ing] the inequitable conduct defense beyond legitimate limits." (538 F.2d at 186). In a passage which highlights the error in the Ninth Circuit's approach below, the Eighth Circuit declared:

> "It would be unwise to attempt to formulate a standard of conduct setting forth all elements of the defense embracing all misconduct before the Patent Office that might justify refusal to enforce a patent. *However, we note that the standard is not one of strict liability for innocent or even negligent omissions or misstatements before the Patent Office.* [Citation omitted]. *Rather, to result in refusal to enforce the patent, the misconduct must be accompanied by some element of wrongfulness, willfulness, or bad faith.* [Citation omitted]. *This requirement of proof has been uniformly applied by a majority of the circuits to claims of both fraud and lesser inequitable conduct.*" (*Id.;* emphasis added).

Accordingly, the Eighth Circuit reversed, holding that because the "issues of intent, good faith and other sub-

[2]In *Pfizer,* as here, the corporate patentee's assertions of good faith rested on the subjective intent of its agents and employees. *See International Rectifier Corp. v. Pfizer, Inc.,* 186 U.S.P.Q. 511, 517 (D. Minn. 1975) ("Pfizer's assertions of good faith belief [are] based on its scientists', patent agents', and attorneys' subjective state of mind . . .").

jective feelings" played "dominant roles" in deciding whether the corporate patentee was guilty of fraud or inequitable conduct, summary judgment was "notoriously inappropriate." (*Id.* at 185).[3]

By holding Grace to a standard of strict liability for innocent misstatements before the Patent Office, the Court of Appeals below dramatically departs from the "uniformly applied" requirement in the majority of other Circuits that a patent cannot be rendered unenforceable for inequitable conduct unless such alleged misconduct is accompanied by "some element of wrongfulness, willfulness or bad faith" — issues which, as *Pfizer* squarely holds, cannot be resolved as a matter of law, but instead entail a factual inquiry into the patentee's "subjective feelings," even where the patentee is a corporation like Grace.[4]

[3]In the petition for certiorari filed in *Pfizer,* it was argued to this Court that the Eighth Circuit had erroneously "require[d] that the subjective intent of the patentee to commit or not to commit a fraud must be determined" (Pet. for Cert. at 11), and that such a requirement "subverts the function of the Patent Office and thwarts the public policy of freeing competition from unwarranted patent monopolies." (*Id.* at 17). Nevertheless, this Court permitted the Eighth Circuit's opinion to stand.

[4]While paying lip service to the element of intent, the Court below concluded that Grace had committed fraud *as a matter of law* even though no employee of the corporation had acted in bad faith, and, indeed, even though Mr. Merritt himself was presumed to have "harbored no doubts about the truth of his affidavit. . . ." (608 F.2d at 1219). The Ninth Circuit sought to justify this harsh result by invoking the principles of imputed knowledge set forth in *Restatement (Second) of Agency* §§256, 272. Yet, conspicuously absent from the Court's analysis was any reference to *Restatement (Second) of Agency* §275, Comment b, which makes it crystal clear that imputed knowledge cannot give rise to corporate liability when intent is an element of the alleged offense. *Accord, Woodmont, Inc. v. Daniels,* 274 F.2d 132, 136 (10th Cir. 1959). Equally misplaced was the Ninth Circuit's reliance on *Acme Precision Products v. American Alloys Corp.,* 422 F.2d 1395 (8th Cir. 1970), since there patent fraud was imputed to the corporation only after a finding that a key corporate officer possessed *both* knowledge of the true facts *and* knowledge of the corporation's activities with respect to the allegedly erroneous Patent Office submission.

Not only is the Ninth Circuit's opinion in direct conflict with the law of other Circuits, but it is at war with the Patent Office's own regulations concerning the duty to disclose in patent prosecutions. Thus, 37 C.F.R. §1.56(a) imposes a duty to disclose "information they *are aware* of" upon

> ". . . every . . . individual *who is substantively involved* in the preparation or prosecution of the application and who is associated with the inventor, with the assignee or with anyone to whom there is obligation to assign the application." (Emphasis added).

Further, as the regulation provides:

> "The duty is *commensurate with the degree of involvement* in the preparation or prosecution of the application." (Emphasis added).

Thus, the Patent Office's own regulations require both *individual* knowledge and *individual* involvement in the application process before the duty to disclose comes into play. Accordingly, the Ninth Circuit's holding that mere knowledge by "some" Grace agent—regardless of that agent's involvement in the application process —is alone sufficient to charge Grace with patent fraud "as a matter of law," collides directly with the disclosure standards promulgated by the Patent Office itself.

Finally, the Ninth Circuit's strict liability ruling —if allowed to stand—would have Draconian consequences for virtually every corporation which seeks to obtain and enforce United States patents. For if, as the Ninth Circuit holds, a corporation is chargeable with patent fraud "as a matter of law" for any innocent omission of relevant information which might be lodged somewhere in the company's bowels, then it

would be incumbent upon the corporate patentee to search every nook and cranny of its files in connection with every patent application it files—or else run the risk that an infringer might later discover such an innocent omission and seek to have the patent declared unenforceable on that ground. Such an obligation—to make absolutely certain that there is no other information somewhere within the corporation that might arguably be relevant to the patent application—would not only be burdensome, but virtually impossible to fulfill. Moreover, it would lead patent applicants to inundate the Patent Office with data of only marginal relevance at best. Judge Mansfield, then sitting in the district court, made this very point in rejecting a strict-liability regime in *Xerox Corp. v. Dennison Mfg. Co.*, 322 F. Supp. 963, 968 (S.D.N.Y. 1971):

> "[T]o deny [patent] enforcement as a matter of law merely because of an innocent or good faith non-disclosure would go beyond what is necessary to protect the public against the improvident granting of a monopoly. Such a standard could also have the harmful effect of forcing a patent solicitor to flood the Patent Office in each case with a mass of data of doubtful materiality rather than take the risk that an inventor might later be denied the fruits of his monopoly because of failure to reveal some fact later magnified out of proportion by an infringer seeking to escape the reach of the patent laws by combing the inventor's files under our liberal pretrial discovery procedures and dredging up new found 'facts.' "

Yet, this is precisely the sort of mischief that the ruling below threatens to spawn.

Conclusion.

For all the foregoing reasons, a writ of certiorari should be granted and the decision of the Court of Appeals reversed.

March 21, 1980.

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Supreme Court, U. S.
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APPENDIX VOLUME.

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TABLE OF CONTENTS

	Page
Judgment Upon Defendant's Motion for Directed Verdict; FRCP 50(a)	1
Judgment	4
Findings of Fact and Conclusions of Law	6
Opinion of the Court of Appeals	24
Order. Petition for Rehearing Denied and Suggestion for Rehearing En Banc Rejected	34

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APPENDIX VOLUME.

Judgment Upon Defendant's Motion for Directed Verdict; FRCP 50(a).

United States District Court, Central District of California.

W. R. Grace & Co., Inc., a corporation, Plaintiff, vs. Western U. S. Industries, Inc., a corporation, Defendant. Civil No. 74-2088-R.

Filed: May 16, 1975.

This cause having come on for trial before the Honorable Manuel L. Real and a duly empaneled jury on April 22, 23, 24 and 25, and on May 6, 1975; both parties having appeared by counsel; the plaintiff W. R. Grace & Co. having presented its case and rested; the defendant Western U. S. Industries,

Inc. having moved orally and in writing for a directed verdict pursuant to Rule 50(a) of the Federal Rules of Civil Procedure on the grounds, among others: that Design Patent 230,353 is invalid and/or unenforceable because of the fraudulent misrepresentations made to the Patent Office regarding the purported commercial success of the wheel design which is the subject matter of said patent; that the testimony and exhibits presented by the plaintiff and all the inferences which the jury could justifiably draw therefrom were insufficient to support a finding that California Trademark Registration No. 52,356 is valid, or that the term "WIRE MAG" is a valid trademark of the plaintiff, or that the defendant has committed acts which infringe upon said alleged trademark or dilute the value thereof, or that the defendant has competed unfairly with the plaintiff, or that Mr. Mochel is the sole inventor of the subject matter of Design Patent 230,353; and that during the representation of the plaintiff's case it was established as a matter of law, that the wheel design of the patent in suit taken as a whole, would have been obvious in 1971 to a designer having ordinary skill in the designing of custom automobile wheels:

And the Court having granted the motion of the defendant Western U. S. Industries, Inc. for a directed verdict;

And the defendant being the prevailing party and the Court having determined that this is an exceptional case under Section 285 of Title 35, United States Code, because of the fraudulent misrepresentation of material facts regarding alleged commercial success made to the Patent Office during the prosecution of the application which matured into Design Patent 230,-353, which misrepresentations constituted a serious breach of duty to the Patent Office:

IT IS HEREBY ORDERED, ADJUDGED, AND DECREED that:

1. This Court has jurisdiction of the subject matter of this action and over the parties hereto,

2. The plaintiff W. R. Grace & Co. is the owner of United States Design Letters Patent 230,353,

3. The plaintiff W. R. Grace & Co. is the owner of California Trademark Registration No. 52,356,

4. United States Design Letters Patent 230,353 is invalid and void,

5. California Trademark Registration No. 52,356 is invalid and void,

6. The Complaint is dismissed with prejudice,

7. The defendant Western U. S. Industries, Inc. is awarded reasonable attorneys fees pursuant to 35 U.S.C. 285, as to the present portion of the action, in the amount of $58,395.00, without prejudice to the inclusion of such attorneys fees as damages in any subsequent antitrust action, and

8. The defendant Western U. S. Industries, Inc. shall have and recover of the plaintiff W. R. Grace & Co., the taxable costs and disbursements of said Defendant in the sum of $58,395, and have execution therefor.

Dated: May 16, 1975.

/s/ Manuel L. Real
United States District Judge

Approved as to form [ ]
Disapproved as to form [X]

Receipt acknowledged, May 12, 1975, at 4:30 p.m.

LYON & LYON
By /s/ Thomas D. Kiley
Attorneys for Plaintiff

Judgment.

United States District Court, Central District of California.

W.R. GRACE & CO., INC., a corp., Plaintiff v. WESTERN U.S. INDUSTRIES, INC., a corp., Defendant. No. CV-74-2088-R.

W.R. GRACE & CO., INC., a corp., Plaintiff v. E-T INDUSTRIES, INC., a corp., and PYRAMID ENTERPRISES, INC., a corp., Defendants. No. CV-74-2089-R.

Filed: Feb. 10, 1978.

The Court having made its findings under Rule 52(a) F.R.C.P., IT IS HEREBY ORDERED, ADJUDGED AND DECREED THAT:

Plaintiff's complaint is hereby dismissed with prejudice with costs and attorneys' fees being assessed against Plaintiff W.R. Grace & Co.

Design Patent No. 230,353 is held invalid and not infringed and that proper notification be given to the U.S. Commissioner of Patents to this effect as provided under statute.

The words "wire mag" do not have any trademark significance and that the State trademark Registration No. 52,356 is invalid and that appropriate notification to this effect be given to the State of California as well as to the U.S. Patent and Trademark Office.

FDI, Inc., a Delaware corporation, with offices at 18451 Euclid Avenue, Cleveland, Ohio 44112, be substituted for E-T Industries and Pyramid Enterprises, Inc., since FDI, Inc. is the successor to these two corporations.

The amount of attorneys' fees which I assess against W.R. Grace & Co. and award to Defendants E-T Industries and Pyramid Enterprises pursuant to this judgment is $126,936.02, costs to be assessed as required by Local Rules.

The award is without prejudice to defendants' presently pending claim of treble punitive damages for antitrust violations and unfair competition in Civil Action No. 75-1532 L entitled *FDI, Inc. vs. W. R. Grace & Co., Inc.,* including treble attorneys' fees for defending this action.

DATED: February 10, 1978.

/s/ Manuel L. Real
MANUEL L. REAL
United States District Judge

Findings of Fact and Conclusions of Law.

United States District Court, Central District of California.

W. R. GRACE & CO., INC., a Corporation, Plaintiff, vs. WESTERN U. S. INDUSTRIES, INC., a Corporation, Defendant. CV 74-2088-R

W. R. GRACE & CO., INC., a Corporation, Plaintiff, vs. E-T INDUSTRIES, INC., a Corporation, and PYRAMID ENTERPRISES, INC., a Corporation, Defendants. CV 74-2089-R

Filed May 16, 1975.

FINDINGS OF FACT

1. W. R. Grace & Co., Inc. (GRACE), is a corporation organized and existing under and by virtue of the laws of the State of Connecticut, having its principal place of business in New York City, New York.

2. The defendants, E-T INDUSTRIES, INC. (E-T) and PYRAMID ENTERPRISES, INC. (PYRAMID), are defendants in Civil Action No. 74-2089-R and E-T's principal place of business is in Benicia, California; PYRAMID's principal place of business is in Torrance, California. They are, as of April 30, 1975, dissolved corporations that have been merged into FDI, Inc., a Delaware Corporation, as divisions thereof.

3. W. R. GRACE & CO., INC. filed suit against E-T INDUSTRIES, INC. and PYRAMID ENTERPRISES, INC., under Civil Action No. 74-2089-R.

4. Jurisdiction and venue are proper as to the patent infringement count under 28 U.S.C. 1338(a); however, as to the remaining counts, jurisdiction is lacking under

28 U.S.C. 1332(a)(1) and (c) inasmuch as the matter in controversy does not exceed the sum or value of TEN THOUSAND ($10,000) DOLLARS exclusive of interests or costs as will be explained hereafter.

5. In these proceedings, plaintiff seeks to enjoin defendants E-T and PYRAMID from manufacturing the accused wheels Exhibits C, CJ through CZ, on the basis of claimed design patent infringement. Also, damages and profits are being sought, as a result of this alleged infringement. In addition, common law and state trademark infringement as well as unfair competition and dilution claims based on the alleged trademark infringement are combined in Counts II, III, IV, V and VI. Plaintiff's Complaint also seeks an injunction and profits and damages for infringement and/or misappropriation of its alleged trademark "WIRE MAG" on the basis of use of the words "wire," "wire dish" and/or "wire dish" with "mag" on defendants' accused wheels.

6. E-T and PYRAMID assert that the patent is invalid and unenforceable; that even if the patent is considered valid there has been no infringement on said patent; and, in addition thereto, E-T claims that it has not infringed plaintiff's trademark "WIRE MAG" by the use of "WIRE DISH MAG," "WIRE DISH" or "WIRE," on or in connection with its wheels, and that the trademark WIRE MAG is not a valid trademark because it is descriptive and generic on the wheels to which it is applied.

7. Custom wheels for automobiles have been manufactured since at least the early '60s, and such wheels include cast aluminum, or mag wheels of various designs, and they are intended to enhance the appearance of the vehicle.

8. The Mochel patent was issued on February 12, 1974 under Design Patent No. 230, 353.

9. The earliest Mochel claimed to have conceived the wheel was April 20, 1971 (two weeks after seeing the Chaparral wheel) but there is no evidence that such conception was made solely by him in view of the Japanese drawing where the wheel illustrated in the Mochel patent is the wheel as modified by the Japanese in Exhibits Nos. 73 and GB.

10. The Mochel patent is not only obvious over the prior art, but it is also anticipated by the prior art and, therefore, is invalid on the basis of both 35 U.S.C. 102 and 35 U.S.C. 103. The most pertinent prior art is found to consist of the Chaparral wheel as shown in Exhibits Nos. 65, O, G, F, GM, GS, JU; E-T IV wheel as shown in Exhibit No. 151; and the Rader and Trans-American wheels as shown in Exhibits Nos. AJ, GR, GS, GU, GW; Wire Wheel Exhibit P and the Thompson Patent, Exhibit AX. This prior art is more pertinent to the Mochel patent than the prior art that was found and cited by the Examiner in the File Wrapper History of the Mochel patent.

11. The Chaparral wheel as illustrated in Exhibit No. O invalidates the Mochel patent on the basis of 35 U.S.C. 102 because its differences from the Mochel patent are insubstantial from a design standpoint. The Chaparral wheel was designed and used by the world-famous auto racer Jim Hall during the 1960's. Some of the publications of the Chaparral wheel are for patent purposes identical to the design of the Mochel patent. Specifically, as seen from Exhibits Nos. O, FG, 65, the Chaparral wheel is a deep-dished wheel having lattice work that is substantially the same as the Mochel wheel design. As seen in Fig. 1 of the

Mochel patent, the lattice work formed by the intersecting simulated wire members includes small triangularly-shaped areas about the inner hub portion. Viewing outwardly from the solid triangular-shapes, the next shape is that of a small elongated diamond followed by another triangular shape adjacent the bore of the rim. Thus, only the small triangles adjacent the bore spell the difference between the Chaparral and Mochel wheels. This slight difference between the Mochel and Chaparral lattice work are so insubstantial that even plaintiff's expert witness, Barris, admitted that these small triangles formed by the lattice work adjacent the bore are unnoticeable to the ordinary persons, and the design at the center is established prior to coming to this small portion of the wheel and is not altered by that small portion of the wheel and, therefore, is unnoticeable to the eyes of the ordinary person. (Barris Dep. of Feb. 12, p. 164, lines 9-23). The Chaparral wheel was Mochel's starting point and admittedly at Roy Vachon's request Mochel secured a back issue of West magazine—the issue of October 25, 1970—which at page 16 depicted an automobile referred to as the "Chaparral 2J." Vachon requested that Mochel prepare production drawings for a "street version" of a cast wheel like the wheel depicted in this magazine. Despite the substantial identity of the Mochel design to that of Chaparral, GRACE never disclosed its knowledge of the Chaparral wheel to the Patent Office during the prosecution of the Mochel patent; several of the arguments presented to the Patent Office could not have been presented to the Patent Office had the Patent Office known of the Chaparral wheel, in view of the fact that the Chaparral wheel contained the features upon which

the patentee Mochel based his arguments for patentability. The five differences argued in the File Wrapper History on pages 11 and 12 of Exhibit AT were testified to by Harness as either being satisfied by the Chaparral wheel or as being inherently functional in a casted wheel such as the Chaparral wheel. The accentuated deep smooth rim argued and shown at pages 14, 15 and 16 was also prior art as shown by the Trans-American publication, Exhibit AJ, and the publications of Chaparral, Exhibit 65, and the Firebird with the beauty rim, Exhibit GW. Thus, the Patent Office was misled because it just did not have the facts regarding the prior art.

12. Thompson (Exhibit AX) and Exhibit P both teach lattice work similar to the Mochel patented design. Specifically, the Thompson patent, as well as Exhibit P, illustrate small triangular areas alternating with large pentagon shaped areas at the bore of the rim.

13. The E-T IV wheel shown in Exhibit No. 151 is similar to the Rader wheel illustrated in the publications cited by the Patent Office, except that there are substantial differences, which should be noted. First, the E-T IV wheel teaches a combination of a deep-dished wheel having substantially similar simulated cast wire center to that of the Mochel patent. Second, the E-T IV wheel has small solid triangle areas adjacent to the inner periphery. During the prosecution of the Mochel patent, Applicant argued that his solid triangular areas were not found in the Rader wheel shown in the Sports Car Graphic publication Exhibit No. 91. Therefore, the E-T IV wheel also contained better prior art than the Patent Office considered prior to allowing the Mochel patent. These features along with the deep clean sweep rim make the wheel more pertinent to the Mochel patent than the Sports Car Graphic publication Exhibit No. 91, did not show and was not truly representative of the Trans-American wheels that were in the prior art, since there was no clean sweep rim shown so as to give the cross-over effect, illustrated in the Trans-American publication Exhibit No. AJ, which plaintiff argued in the Patent Office was created by the use of a combination of the lattice structure with the wide clean sweep rim. (See page 15 of Exhibit No. AT.)

14. The evidence of record showed that the patent is invalid under 35 U.S.C. 102 since the differences, if any, of the Mochel patent over the closest pertinent prior art, as hereinabove set forth, are insubstantial, and both the prior art as set forth above as well as the Mochel patent create the same visual impression on the eye of the ordinary observer. Mere visual inspection of the devices can be made by this court, since there is no question of fact concerning the existence of the prior art testimony or controverted evidence as to what the prior art shows, such determination can be made by the court without reference to extrinsic controverted facts.

In rendering this decision, the court takes notice of plaintiff's witnesses, including expert witness Barris, who contended that the rim of the Mochel patent washes out and does not have an effect from a design patent standpoint on the design of the wheel to create a distinct visual impact on the ordinary observer. In addition, the witnesses Barris, Mochel and Kravat all admitted that it was obvious to combine Chaparral, Thompson, Rader, the Dune Buggies and Voxmobile, and Exhibit P to produce the wheel shown in the Mochel patent and, therefore, the Mochel patent is

a patent covering an existing design, wherein the differences over the prior art are insubstantial to the eye of an ordinary observer.

15. As to "obviousness" governed by 35 U.S.C. 103, the Mochel patent is invalid since it is no more than what an ordinary designer at the time of the invention would have done in modifying the Chaparral wheel for street use in view of the prior art, since the differences are substantially ordinary modifications or extractions of existing designs, or are functional and therefore do not give rise to patentability of a design. The testimony of Davis confirmed that the selection of the cast wire configuration was merely functional and depended upon the design parameters dictated by the requirements for eliminating large spaces to pass certain tests prescribed by SEMA, etc., and in order to pass these and still maintain the appearance of a wire wheel, the 45° angle with 20 spokes in the configuration shown was selected. Further, the testimony of Mochel and Harness confirmed that the tapering of the lattice work was due to casting procedure, as well as to the functional object of obtaining stretch of the spoke. The shortening of the spokes from the Chaparral due to greater cross-over also created greater beam strength. (Ex. IT).

Barris, from the stand, contended that the wide rim was not a part of the Mochel design since the rim is functional and depends on whether a wide or a narrow tire is used. Thus, the differences between the prior art and the Mochel patent, if any, are primarily functional rather than ornamental and the patent is invalid under 35 U.S.C. 171.

16. The secondary factual considerations prescribed by the *Graham* case are not found in this case,

since the alleged commercial success was never proven. What sales were shown were shown to have been obtained by heavy financing by GRACE through an "easy pay" plan as well as by heavy advertising and promotion, the first heavy advertising and promotion ever embarked upon by Appliance Industries and made possible by GRACE'S acquisition of Appliance. The evidence failed to show that sales of such wheels were profitable and therefore that there was commercial success or that anybody recognized the patent through licensing. In addition, the evidence failed to establish that E-T and/or PYRAMID copied the wheel in question. Davis testified that he had knowledge of the Rader wheel as well as the Trans-American wheel, together with the SEMA 5-1 specifications and the wheels that he had seen during the period that he worked at Cragar and was testing wheels. This was prior to the time he designed the E-T Wire Wheel.

17. The Mochel patent is invalid and unenforceable since Mochel, Merritt and/or Harness jointly and severally, as well as GRACE, are guilty of unclean hands and/or fraud in their conduct before the Patent Office which included, among other things, the following representations that affected the proceedings in the Patent Office such as:

(a) Witholding information pertaining to the Chapparal wheel and Trans-American wheels.

(b) Filing of the Merritt Affidavits despite the fact that he never checked the accuracy of the affidavits and they were in fact grossly inaccurate and misleading. The first affidavit argued commercial sales of a particular wheel shown to the Patent Examiner and such wheel not only was never sold, but the sales repre-

sented to the Patent Office were not of wheels that were alike in character to the one shown to the patent Office. The sales included small sized wheels which did not have *deep smooth rims*. Also, the sales were made on the basis of an "easy payment" plan, admittedly brought into effect for the first time by GRACE'S heavy financial resources after acquisition of Appliance Industries.

(c) The arguments and proceedings in the Patent Office completely mischaracterized the Rader wheel as being stepped despite the fact that GRACE an/or its employees knew or should have known that Rader combined the center of its wheels with rims having "clean sweeps" as shown in the Trans-American wheels which were pictured in the Mochel company file and were mentioned to Harness per Exhibits AJ and IT. Further, it was common knowledge throughout the industry that smooth deep rims could be united with different centers as per Mochel's and Barris' testimony.

(d) Withholding information pertaining to the Chaparral wheel was fraudulent in view of the fact that the very features shown by the Chaparral wheel and argued at points 1-5 on pages 14 and 15 of the Mochel File Wrapper History are shown in the Chaparral wheel or are inherently functional in a casted simulated wire wheel structure of the type embodied in the Chaparral wheel. (Harness' testimony.) This was also fraudulent because the Chaparral wheel was the starting point for Mochel in early April 1971 just two

weeks prior to April 20th, the alleged date of conceiving the patented wheel. (Mochel testimony.)

(e) Merritt's second Affidavit giving the appearance that the advertising of Appliance is minimal is certainly grossly fabricated since the record brought out that Merritt, a CPA and lawyer, did not check the records of the company, but filed an Affidavit that he knew was "mistaken." The Affidavit was changed, and he considered the Affidavit for a long period of time. The facts and circumstances of his testimony brought out that not only should he have known of the expenditure of approximately $60,000 for advertising and promotion because he was President of his division (Exs. JY1 and JY2) and his company kept books in the ordinary course of business and he was privy to same. He received correspondence and comments from customers of different magazines as well as industry people in the trade about the different ads they ran in different magazines. All these factors show circumstances that establish the bad faith of Merritt in signing the particular Affidavits involved.

20. There is no infringement of the Mochel patent by the accused wheels of E-T or PYRAMID because the wheels manufactured by E-T and PYRAMID are not deceptively similar to the ordinary observer. The proceedings in the Patent Office preclude interpreting the Mochel design from being read on the defendants' wheels, since such interpretations recaptures what plaintiff admitted was in the public domain during the

proceedings. Further, if there are any features of the Mochel design that are utilized, they are primarily functional features, and utilization of such features does not prove misappropriation of a design. In this case, there is no conflicting evidence on the configuration of the E-T wheels accused to infringe. The arguments in the Patent Office as well as the configuration of the wheel shown in the patent establish that the shape of the rim is different, E-T's spokes are rounded and appear to be overlapping at the intersection, as opposed to the Mochel wheels which are flat.

Also, E-T uses oval-shaped lug bolt apertures with a patented UNI-LUG feature which means that their wheels are universal as compared to the Mochel wheels which are only for one bolt diameter. The difference in appearance as well as the absence of contrary evidence and the proceedings in the Patent Office dictate a conclusion that the wheels in question do not infringe. A comparison of E-T and PYRAMID's wheels with the Chaparral wheel as illustrated in Exhibit 65 shows that E-T's wheels more fully proximate or are closer to the Chaparral wheel than to the patented design. Also, the Trans-American wheels shown with the different types of rims in Ex. AJ, including the stepped type of steel rim that E-T uses, would certainly be closer to the E-T wheel than it is to the patented design. Thus, E-T's two-piece wheel does not infringe but rather its design is patterned after the prior art.

PROPOSED CONCLUSIONS OF LAW

1. The presumption of validity regarding design patents is weak, since the expertise normally required in the Patent Office when dealing with complex utility patents is not required in determining the similarity of two designs "in the eye of an ordinary observer".

For a design patent to be valid, it must be (1) new, (2) original, (3) ornamental, (4) non-obvious, (5) not primarily for purposes of serving functional or utilitarian purposes. *Schwinn Bicycle Co. v. Goodyear Tire & Rubber Co.*, 444 F.2d 295 (1970).

The design patent in question is not new, is not original, is not ornamental, nor is it unc bvious. Accordingly, it is invalid under 35 U.S.C. §171, 35 U.S.C. §102 and 35 U.S.C. §103.

2. The presumption of validity flowing from the grant of a patent is greatly weakened if not destroyed when pertinent prior art has not been cited by the Patent Office. A patent is not entitled to a presumption of validity over prior art which the Examiner did not cite. In this case, where the prior art is exemplified by Thompson Exhibit AX; Chaparral Exhibits O, 65, and GM; E-T IV Exhibit 151, and Rader and Trans-American wheels, Exhibits AJ, GS, GU, the closest pertinent prior art found in the Patent Office and cited by the Examiner in the File Wrapper History was not as close as the prior art uncovered by defendants. Moreover, if the Patent Office would have known about the art uncovered by the defendants, the arguments in the Patent Office could never have been made to obtain the allowance of the patent. Accordingly the plaintiff has not carried its burden of proof that the Patent Office considered the non-cited prior art prior to the issuance of the patent. Thus, the presumption invalid. *J. B. Manufacturing Corp. v. Ajax Hardware Manufacturing Corp.*, 287 F.2d 228 (9th Cir. 1961); *Dresser Industries, Inc. v. Smith Dwyer Inc.*, 322 F.2d 878 (9th Cir. 1963).

3. The Mochel patent is invalid under 35 U.S.C. §102 since the differences between it and the prior

art, if any, are insubstantial and the designs created by the prior art create the same visual impression on the eye of an ordinary observer. *Duplex Straw Dispenser Co. v. Harold Leonard & Company, Inc.*, 229 F. Supp. 401 (S.D.Cal. 1964); *Schwinn Bicycle Co. v. Goodyear Tire & Rubber Co.*, 444 F.2d 995 (9th Cir. 1970).

4. As a matter of law, the differences, if any between the design of the Mochel patent and the prior art are obvious and under 35 U.S.C. §103 since they amount to mere routine modifications of existing designs shown in the prior art as exemplified by the Thompson patent, E-T IV, Chaparral, Rader, and Trans-American wheels. A new impression upon the eye cannot be produced by small differences between the design in question and the prior designs. Such small differences are well within the creative ability of an ordinary designer. Thus, on the basis of pre-existing design and minor diferences, this patent is invalid. *J. B. Manufacturing Corp. v. Ajax Hardware Manufacturing Co.*, 287 F.2d 288 (9th Cir. 1961). There must be a substantial difference in design over the prior art in order that the design be patentable. Minor or small differences which do not produce a new impression upon the eye are not enough to create novelty. *Duplex Straw Dispenser Co. v. Harold Leonard & Co.*, 229 F. Supp. 401-403 (C.D.Cal. 1964).

5. When the differences between the prior art are functional rather than ornamental as in this case, the patent is invalid based on 35 U.S.C. §171. *Schwinn Bicycle Co. v. Goodyear Tire & Rubber Co.*, 444 F.2d 295 (1970); *Payne Metal Enterprises Ltd. v. McFee*, 382 F.2d 541 (9th Cir. 1967); *Bentley v. Sunset House Distributing Corp.*, 359 F.2d 140-145 (9th Cir. 1966).

6. No amount of secondary considerations prescribed by the *Graham* case can breathe life into an invalid patent. Accordingly, there is no need to go into the *Graham* secondary considerations in this case. *Payne Metal Enterprises, Ltd. v. McPhee*, 382 F.2d 541 (9th Cir. 1967).

7. Merritt, Mochel and Harness are guilty of fraud and the patent is unenforceable since they and Grace knew or should have known that the Patent Office's issuance of the patent would have been affected by the non-disclosure of the Chaparral and Trans-American wheels which contained simulated cast wire wheels having deep dish centers with clean sweep rims. These were the structural features that were relied on so heavily for patentability on pages 11 through 15 of the Mochel patent File Wrapper History and they as reasonable men should have brought this prior art to the Patent Office's attention. This should have been even more evident to Mochel and Harness, since Mochel wrote Harness a note telling him, in effect, that he did not feel his wheel was patentable over the Chaparral and Trans-American wheels. (Ex. IT) *Intermountain Research & Engineering Co. v. Hercules, Inc.*, ... F. Supp. ...., 171 U.S.P.Q. 577 (C.D. Cal., 1971).

8. As a matter of law, the plaintiff should have known that reckless and inaccurate misrepresentations concerning advertising promotion and sales of the patented wheel would have affected the Patent Office's decision to allow the Mochel patent in what was termed by the Patent Office as a "close case". The Patent Office's rejection at page 22 of defendants' Exhibit AJ stated:

> "In close cases the manner in which the public receives an invention is sometimes persuasive

> that patentable invention existed . . . *commercial success, however, often results from sources other than that which is resultant from invention, which is believed to be the case herein . . . the claim is again rejected.*" (emphasis ours)

Merritt's false affidavit in response to this rejection fell into the category of a misrepresentation which he knew or should have known was false and he knew or should have known that it would have affected the decision of awarding the patent to plaintiff. Merritt was an officer of the plaintiff corporation; and the corporation kept books in the ordinary course of business which he admitted he was privy to and the books indicated the amount of advertising that Appliance Industries had done in the period in question. Such actions on the part of Merritt are especially outrageous and fraudulent, when it is borne in mind that Merritt is a CPA and attorney; and accordingly, must be held to a higher standard of care in executing affidavits, where the affidavit appears to be executed on the basis of his personal knowledge. Further, in this case, the representations regarding "commercial success with very little advertising" were at the very foundation of the patent grant and were constantly relied upon by the applicant to obtain the patent. This leaves no room whatsoever for speculation that such actions on the part of Merritt in underplaying the advertising did affect, the outcome in issuance of the patent in suit. (See pages 22, 23, 24, 25, 38 of Mochel File Wrapper History, Ex. AT).

9. In this case, infringement can be determined as a matter of law, due to the fact that the question of infringement is a matter of construction of uncontroverted evidence and no extrinsic evidence is needed

to explain terms of art or to apply descriptions. *Oxnard Canners v. Bradley,* 194 F.2d 655 (9th Cir. 1952); *Dolgoff v. Kaynar Co.,* 18 F.R.D. 424 (S.D. Cal. 1955); *Del Francia v. Stanthony Corp.,* 278 F.2d 745 (9th Cir. 1960); *Hansen v. Colliver,* 282 F.2d 66 (9th Cir. 1960). The proceedings in the Patent Office preclude interpreting the Mochel patented design to include defendants, E-T and PYRAMID'S, accused wheels, because such interpretation would recapture what plaintiff admitted was in the public domain, during the prosecution of the Mochel application in the Patent Office. During the course of the proceedings at pages 14 and 15 of Exhibit AT, the Mochel File Wrapper History, one of the arguments made by the plaintiff in attempting to overcome the prior art was:

> "Incidentally, in discussing this wheel with experts at Appliance Industries, Counsel for Applicant was informed of another difference over the Rader wheel, of reference. The wheel of this Application offers a "deep-dish" design with a clean sweep from the rim to the center. This is shown for example in Figure 4. The illustration of the Rader wheel shows a "shallow-dish" design with a couple of "steps" from the rim to the center. As to this feature, the Rader wheel is not believed to teach the clean sweep design of the instant wheel. The difference is really shown best in perspective view, and Counsel for Applicant is enclosing on an attachment hereto (Exhibit A) one of the photographs shown to the Examiner at the interview. This photograph clearly shows the "deep-dish" feature."

On the basis of the file wrapper estoppel as a matter of law, I hold that the interpretation of the patent

was narrowed following a rejection on the basis of prior art patents, the effect being to insert a narrower interpretation of the design having limitations preventing them from reading on the prior art patents. In view of the heavy reliance placed in the Patent Office on the smooth deep rim, and, in view of the fact that the defendants used the commercially available stepped rim which is like an ordinary OEM steel rim which is highly polished. *Stimulant Products, Inc. v. Vibrex Corp.*, 161 U.S.P.Q. 513 (C.D.Cal. 1969) no infringement can be asserted against defendants.

10. There is no evidence of record that the general public has come to recognize the term "WIRE MAG" as a trademark owned by plaintiff, and all of plaintiff's Counts II, III, IV, V and VI depending on the trademark significance of "WIRE MAG" should be dismissed.

11. Defendants, E-T and PYRAMID, are entitled to judgment dismissing Count I in view of the fact that the Mochel patent in suit is both invalid and not infringed.

12. This is an exceptional case within the meaning of 35 U.S.C. §282 where both fraud and bad faith have been established by the evidence of record. Accordingly, on the basis of this being an exceptional case, defendants are entitled to recover their costs including reasonable attorney's fees in defending this action.

13. Under Rule 41(b) F.R.C.P. defendants can move to dismiss a case where the plaintiff has not proved its case by a preponderance of the evidence. A judgment thus rendered is a decision on the merits of the case. *Moon v. Dulles,* 237 F.2d 241 (9th

Cir. 1956); *Young v. United States,* 111 F.2d 823 (9th Cir. 1940); *Ellis v. Carter,* 328 F.2d 573 (9th Cir. 1963). As a matter of law GRACE has failed to prove its claim by a preponderance of the evidence. *United States of America v. Huck Manufacturing Company,* 227 F. Supp. 791 (E.D. Mich. 1964). In *Barr v. Equitable Life Assurance Society,* 149 F.2d 634 (9th Cir. 1945), the Ninth Circuit Court of Appeals stated:

> "To us, the rule embodies sound common sense, it would be absurd to *waste the Court's time* and to impose upon the parties, both *waste of their time and that of their counsel and the witnesses,* together with the unnecessary expense in offering the defendant's evidence which, with reasonably efficient advocacy, would not do more than enlarge the record." (emphasis added)

Rule 41(b) was meant to be used in situations like the case at bar. Accordingly, it is unnecessary for E-T and PYRAMID to put in any further evidence to sustain their case. The needless expense as well as the Court time involved in presenting E-T's defense and GRACE'S rebuttal is certainly unwarranted.

14. Any finding of fact entered into herein which may be considered in whole or in part as a conclusion of law shall be so deemed and treated as if set forth as a conclusion of law herein and any conclusion of law entered herein which may be construed in whole or in part as a finding of fact shall be so deemed and treated.

/s/ Manuel L. Real
MANUEL L. REAL, JUDGE

Entered:

Opinion.

United States Court of Appeals for the Ninth Circuit.

W. R. GRACE & CO., INC., a corporation, v. WESTERN U. S. INDUSTRIES, INC., a corporation, Appellee. No. 75-2574.

W. R. GRACE & CO., INC., a corporation, Appellant, v. E-T INDUSTRIES, INC., a corporation, and PYRAMID ENTERPRISES, INC., a corporation, Appellees. No. 75-2563.

Filed: Oct. 9, 1979.

Appeal from the United States District Court for the Central District of California.

Before: CHAMBERS and GOODWIN, Circuit Judges, and FITZGERALD*, District Judge.

GOODWIN, Circuit Judge:

W. R. Grace & Co. appeals judgments of dismissal and the award of attorney's fees against it in consolidated actions that Grace brought against two defendants for patent infringement. We affirm.

Grace owns Design Patent No. 230,353, for a custom automobile wheel. In one action, Grace sued Western U. S. Industries, Inc. (Western). In the other action, Grace sued E-T Industries, Inc. and Pyramid Enterprises, Inc. for infringement. (E-T and Pyramid are both divisions of FDI, Inc., and will be referred to jointly hereafter as E-T.)

Mochel, an employee of Appliance Industries, Inc., was instructed by his superior to design a "street version" of a wheel depicted in a magazine artist's rendi-

*The Honorable James M. Fitzgerald, United States District Judge for the District of Alaska, sitting by designation.

tion of a Chaparral race car. Mochel borrowed much from the Chaparral design, but he made some changes. For example, rather than having the spokes of the wheel meet at the outer rim, he had them crisscross a short distance away from the rim, toward the center of the wheel. The effect was to eliminate starlike "points" from the rim area and create small triangles there instead. In addition, he increased the number of spokes, changed their draft angle, and thickened them toward the back of the wheel.

In September 1971, Appliance applied for a patent on Mochel's design. Appliance then assigned its rights in the design to Grace, incident to a liquidation and takeover of Appliance by Grace. This assignment set in motion a two-year application process in which the Patent Examiner twice rejected the design as unpatentable.

The first rejection came in November 1972. The examiner rejected the design as obvious in view of the prior art. He cited the Rader wheel, which appeared in a 1965 issue of *Sports Car Graphic* magazine, and also cited a patent issued to one Chandler.

In January 1973, Grace responded to the rejection by pointing out five alleged differences between the prior art cited and the Mochel design. In a February 1973 interview with the examiner, Grace showed photos of a Mochel-style wheel on an automobile. In March 1973, Grace amended its response to point out a sixth difference and to give sales figures for the pictured wheel. The sales figures were submitted in an effort to show that Grace had enjoyed commercial success in marketing the design, thus bolstering its case for patentability.

In April 1973, the examiner again rejected the application. In addition to the Rader and Chandler wheels cited in the prior rejection, the examiner also referred to Burchard and Hibbard patents. Answering Grace's assertion of commercial success, the examiner said that, while such information is relevant in close cases, apparently impressive sales could be explained by factors other than novelty of design. Thus, the commercial success argument was rejected.

On July 3, 1973, Grace again responded. In another attempt to distinguish the prior art, it declared that it had created a novel combination of prior art elements in addition to its new elements. Returning to its earlier commercial-success argument, Grace submitted five affidavits from distributors of its wheels and an affidavit by Floyd Merritt, president of its Appliance division. These documents were to become crucial in the trial of these cases.

The affidavits of the distributors were virtually identical; all asserted that "[w]e [the distributor] have no particular advertising campaign as such for any of these wheels." The Merritt affidavit declared: "Our major advertising so far has been a one-page ad in *Car Craft,* when we first offered the Wire Mag wheel, in 1972." The trial court later held the Merritt affidavit to be false.

Between June 1972 and July 1973, Grace had run 18 advertisements for the Mochel wheels, spending more than $56,000 to reach consumer and industry audiences. In addition to several ads in *Car Craft* (maximum amount spent per ad: $3,470) were four ads in *Hot Rod* magazine, three of which were full pages and two of which cost more than $9,000 each,

and an $8,000 ad in *Motor Trend.* While *Car Craft's* circulation is about 300,000, *Motor Trend's* is more than 600,000, and *Hot Rod's* is more than 800,000. Also included in the $56,000 advertising expense was $15,800 spent for the production and printing of thousands of promotional kits, which included poster-size reproductions of one of its full-page color ads.

After Grace filed the controversial affidavits, Grace petitioned the examiner to "make the subject application special", thereby accelerating its processing. On October 4, 1973, the examiner allowed the patent to issue.

Grace commenced these actions, and demanded a jury trial in both. In the action gainst E-T, the demand was made later than 10 days after the last pleading was filed. Because the demand failed to comply with Fed. R. Civ. P. 38, Grace moved for relief under Fed. R. Civ. P. 39(b). The trial court could have granted a jury trial, in its discretion, despite Grace's failure to make timely demand. The court denied the motion and tried the two cases together, but to different finders of fact: the E-T case to the trial judge, the Western case to the jury.

After the close of Grace's case, the court directed a verdict for Western and entered a judgment of dismissal under Fed. R. Civ. P. 41(b) for E-T. The court found the design patent to be anticipated, obvious, authored by parties other than Mochel, procured by fraud on the Patent Office, and not infringed. The court also awarded fees and costs to both defendants on the ground that the case was "exceptional" within the meaning of 35 U.S.C. § 285, the attorney's fees section of the patent statute. This appeal followed.

The "Unclean Hands" Defense

The Supreme Court has made fraud on the Patent Office in the procurement of a patent an equitable defense to an infringement action. *Precision Instrument Manufacturing Co. v. Automotive Maintenance Machinery Co.*, 324 U.S. 806 (1945). In *Precision Instrument*, the Court quoted as its "guiding doctrine" the equitable maxim that "he who comes into equity must come with clean hands." 324 U.S. at 814. It stressed that patent monopolies are "issues of great moment to the public," 324 U.S. at 815, particularly suited to "the equity court's use of discretion in refusing to aid the unclean litigant." *Id. See also Keystone Driller Co. v. General Excavator Co.*, 290 U.S. 240 (1933).

That fraud on the Patent Office is also a defense to an action for damages caused by patent infringement is indicated by *Hazel-Atlas Glass Co. v. Hartford-Empire Co.*, 322 U.S. 238 (1944), *overruled on other grounds, Standard Oil of California v. United States*, 429 U.S. 14, 18 (1976). There, the fraud was an article written by the plaintiff's attorney, but fraudulently represented to be by another author. Not only did the article deceive the Patent Office, but it also deceived the Third Circuit, which in 1932 reversed a district court's finding of patent invalidity and ordered an accounting for damages. 59 F.2d 399. Several years later the fraud was uncovered, and the Third Circuit reversed itself and recalled its old mandate.

The Supreme Court affirmed the Third Circuit's turnabout. It declared that "[h]ad the District Court learned of the fraud on the Patent Office at the original infringement trial, it would have been warranted in

dismissing Hartford's case." 322 U.S. at 250. It then held that the Third Circuit judgment of 1932 must be vacated, and that therefore "the case now stands in the same position as though Hartford's corruption had been exposed at the original trial. In this situation, the doctrine of the *Keystone* case, *supra*, requires that Hartford be denied relief." 322 U.S. at 250-51. *See Norton v. Curtiss*, 433 F.2d 779, 793 (C.C.P.A. 1970) (fraud as complete defense to damages action under "unenforceability" language of 35 U.S.C. § 282(1)). *See also Walker Process Equipment, Inc. v. Food Machinery & Chemical Corp.*, 382 U.S. 172 (1965) (fraud on Patent Office as basis of claim under section 2 of Sherman Act); *Monolith Portland Midwest Co. v. Kaiser Aluminum & Chemical Corp.*, 407 F.2d 288, 294 (9th Cir. 1969) (dictum).

In the case before us, several factual grounds supported the trial court's determination that as a matter of law Grace had committed fraud on the Patent Office, and thus could not enforce its patent. Among them was the filing of the Merritt affidavit, which represented there had been minimal advertising for the Mochel wheels, while actually there was advertising far in excess of the single *Car Craft* advertisement discussed in the affidavit.

On appeal, Grace disputes these rulings. It declares that, at least insofar as it was a defense to patent validity, the question of fraud should have been left to the jury. Grace also argues that the evidence was insufficient to support a finding of fraud in any event, and that the court erred in excluding evidence highly probative of the state of mind of Merritt and other agents of Grace.

Merritt, president of Appliance, swore in his affidavit that the company's "major advertising so far [as of July 1973] has been a one-page ad in Car Craft." The evidence shows that this statement was made solely to dispel the expressed suspicions of the Patent Examiner that allegedly healthy sales of the Mochel wheels were due to forces other than novelty of design. Prior to the filing of this affidavit, and five others from distributors also representing the lack of any advertising campaign "as such", the examiner had steadfastly refused to approve the patent. Following the filing of this material, and a motion by Grace to accelerate the proceedings, the patent was granted. Grace admitted that its purpose in submitting the distributors' affidavits was to convey the idea that it had engaged in only a small amount of advertising; the only logical inference is that its purpose in filing the Merritt affidavit was identical. The Patent Office's reversal of its two earlier rejections upon receipt of these highly misleading affidavits leaves no doubt that they were material to, and a substantial cause of, the patent grant. There is overwhelming and undisputed evidence that the result was just what Grace intended. Therefore, the only issue that would even arguably merit jury consideration on a record such as this is the question of state of mind, or scienter.

A leading case discussing the scienter requirement for a finding of fraud on the Patent Office is this court's 1969 decision in *Monolith Portland Midwest Co. v. Kaiser Aluminum & Chemical Co., supra.* There,

the court awarded attorney's fees to defendants in a patent infringement suit on the ground that the plaintiff had committed fraud on the Patent Office. *Monolith Portland's* view of the duty of patent applicants to be frank with the Patent Office, however, clearly has import beyond the attorney's fees context, It is also instructive on the question of scienter when defendants seek to assert fraud on the examiner as an affirmative defense. We held that the applicant did not have to be certain his or her statement was false or misleading in order to have failed in the duty of disclosure. The court found it sufficient that the plaintiff's "course of conduct * * * reveals a calculated recklessness about the truth." 407 F.2d at 297.

Merritt admits he erred in the affidavit, but insists it was only because he personally misunderstood his subordinates' reports about the advertising. Grace thus argues that there was a jury question presented on scienter. It is important to remember, however, that the plaintiff and patent holder here is not Merritt, but a corporation, Grace. Under well established agency doctrines a corporate principal is considered to know what its agents discover concerning those matters in which the agents have power to bind the principal. *See* Restatement (Second) of Agency § 272. And even when an agent has no reason to know the falsity of the representations he or she makes, the principal is liable if it knows the falsity and has reason to know the agent would make the statement. *See* Restate-

ment (Second) of Agency § 256. Under these rules, Grace clearly must answer for intentional or reckless misrepresentation as a matter of law. The evidence was undisputed that some agent of Grace had to know about the corporation's advertising for the wheels: thus, Grace must be said to have known it. And even if we assume that Merritt himself harbored no doubts about the truth of his affidavit—a dubious assumption on this record—the corporation, which knew the truth and had ample reason to know of Merritt's actions and statements, must be said as a matter of law to have known that the statements were false. In *Acme Precision Products, Inc. v. American Alloys Corp.*, 422 F.2d 1395 (8th Cir. 1970), the court followed *Walker Process Equipment Co. v. Food Machinery & Chemical Corp., supra,* and held that a corporation could be held liable under the antitrust laws for fraud on the Patent Office. The court held as a matter of law that the corporation knew of the falsity of its patent procurement tactics:

> "It is a well settled principle that knowledge of officers and key employees of a corporation, obtained while acting in the course of their employment and within the scope of their authority, is imputed to the corporation itself * * *." 422 F.2d at 1398.

With fraud on the Patent Office thus established, the Eighth Circuit remanded for a determination of other issues relevant to the antitrust cause of action.

In the case before us, Grace, through its Appliance division, was properly charged as a matter of law with knowledge of the extensive advertising program for the Mochel wheels. The statement of Appliance's president in an acknowledged effort to persuade the

Patent Office was therefore fraud on the Patent Office. The infringement actions were properly dismissed as a matter of law on that ground.[1]

Attorney's Fees

Grace also challenges the trial court's finding that the case was an "exceptional" one, in which the prevailing party is entitled to attorney's fees under 35 U.S.C. § 285. The attorney's fees issue presents the same questions as the defense of fraud on the Patent Office, but this court's standard of review is less stringent. The trial court's findings of fraud are reviewed closely because the directed verdict took the question from the jury. On the award of attorney's fees, this court defers to the trial court's discretion in determining fraud. *See, e.g., SSP Agricultural Equipment, Inc. v. Orchard-Rite Ltd.*, 592 F.2d 1096, 1102 (9th Cir. 1979). Cases involving fraud, "calculated recklessness", or bad faith in dealings with the Patent Office are precisely the "exceptional" cases for which section 285 is designed. *Monolith Portland Midwest Co. v. Kaiser Aluminum & Chemical Corp., supra.* In light of this legal principle, the standard of review, and the evidence summarized above, there was no abuse of discretion in the award of attorney's fees in this case.

Affirmed.

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[1]Since we affirm the trial court on the affirmative defense of fraud, we need not reach the issue whether the trial court erred in refusing to grant the jury trial in the E-T case while allowing it in the Western case. Fraud on the Patent Office is a complete defense, and since the trial court properly held there was fraud as a matter of law, no jury determination of any issue was needed. Grace has not shown that the trial court's decision to split the factfinding chores led Grace to present its case any differently than if both cases were tried to the jury.

Order.

United States Court of Appeals for the Ninth Circuit.

W.R. GRACE & CO., INC., a corporation, Appellant, v. E-T INDUSTRIES, INC., a corporation and PYRAMID ENTERPRISES, INC., a corporation, Appellees. No. 75-2563.

W. R. GRACE & CO., Inc., a corporation, Appellant, v. WESTERN U. S. INDUSTRIES, INC., a corporation, Appellee. No. 75-2574.

Filed: Dec. 27, 1979.

Appeal from the United States District Court for the Central District of California.

Before: CHAMBERS and GOODWIN, Circuit Judges, and FITZGERALD*, District Judge.

On November 6, 1979, appellant filed its petition for rehearing and suggestion for rehearing en banc.

The full court has been advised of the suggestion for en banc rehearing, and no judge of the court has requested a vote on the suggestion for rehearing en banc. Fed R. App. P. 35(b).

The petition for rehearing is denied and the suggestion for rehearing en banc is rejected.

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*The Honorable James Martin Fitzgerald, United States District Judge for the District of Alaska, sitting by designation.

Supreme Court, U.S.
FILED
APR 23 1980
MICHAEL RODAK, JR., CLERK

No. 79-1533

In the

Supreme Court of the United States

OCTOBER TERM, 1979

W.R. GRACE & CO., INC., a corporation,
Petitioner,

vs.

E-T INDUSTRIES, INC. and PYRAMID ENTERPRISES,
Respondents.

W.R. GRACE & CO., INC., a corporation,
Petitioner,

vs.

WESTERN U.S. INDUSTRIES, INC., a corporation,
Respondent.

BRIEF OF RESPONDENTS E-T INDUSTRIES, INC. AND PYRAMID ENTERPRISES IN OPPOSITION TO THE PETITION FOR WRIT OF CERTIORARI FILED BY W. R. GRACE AND CO., INC.

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TABLE OF CONTENTS

PAGE

Corrected Statement of the Case 1

Reasons for Denying the Writ 7

Argument 11

I. The Result in the Present Case is Supported Independently on Grounds Other than Those Urged by Grace 11

II. No Federal Question of any Import is Raised by Grace in its Petition 13

Conclusion 16

TABLE OF AUTHORITIES

Cases

Barr v. Equitable Life Assurance Society, 149 F.2d 634 (9th Cir. 1945) 9

Farmer Bros. Co. v. Coca-Cola Co., 384 F.Supp. 595 (C.D. Cal. 1974) 8

W.R. Grace & Co. v. E-T Industries, Inc. and Pyramid Enterprises, Inc., 608 F.2d 1214 (9th Cir. 1979) 3

Monolith Portland Midwest Co. v. Kaiser Aluminum & Chemical Corp., 407 F.2d 288 (9th Cir. 1969) 7, 13

Norton v. Curtiss, 433 F.2d 779 (CCPA 1970) 14

Pfizer, Inc. v. International Rectifier Corp., 538 F.2d 180 (8th Cir. 1976), *cert. den'd.* 429 U.S. 1040 (1977) 8

Precision Instrument Manufacturing Company v. Automotive Maintenance Machinery Company, 324 U.S. 806, 65 S.Ct. 993 (1945) 7, 14

PAGE

Rice v. Sioux City Memorial Park Cemetery, 349 U.S. 70, 75 S.Ct. 614 (1955) 7, 9, 11, 12

Schnadig Corporation v. Gaines Manufacturing Company, Inc., 494 F.2d 383 (6th Cir. 1974) 9

True Temper Corp. v. CF&I Steel Corp., 601 F.2d 495, (10th Cir. 1979) 7, 14

RULES & STATUTES

35 U.S.C. §102 4

35 U.S.C. §103 4

35 U.S.C. §171 4

35 U.S.C. §285 ..... 3, 11

Rule 41(b) Federal Rules of Civil Procedure 8, 9, 12

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CORRECTED STATEMENT OF THE CASE

The facts which support the findings of the trial court and the Ninth Circuit Court of Appeals are well summarized in the opinions below, reproduced in the Appendix Volume; Respondents E-T INDUSTRIES, INC. and PYRAMID ENTERPRISES ("E-T") will not tender a complete statement of facts. However, Petitioner, W.R.

GRACE & CO., INC. ("Grace") has omitted many facts that were material to the resolution of this case, including those relating to the character of Grace's conduct in the United States Patent and Trademark Office and in the courts, as found by the courts below.

For this Court to grant Certiorari based upon the facts selectively set forth in Grace's petition would be to bring on a totally fictitious and non-existent case before the Court, one much different from the case tried in the District Court and affirmed, *in toto*, on appeal. E-T must therefore correct Grace's omissions.

Grace presents as a "fact" the innocence of Floyd Merritt, President of Grace's Appliance Division, manufacturer of the wheels in question, ignoring the findings of the courts below. Using this false premise as a springboard, Grace argues that failure to recognize Merritt's innocence was the only basis for the decisions of the courts below. This is plainly not true.

Apart from clear findings that Merritt had engaged in inequitable conduct, both the trial court and Court of Appeals found many other grounds to justify findings of patent invalidity and the award of attorney's fees; the grounds were so numerous as to constitute a quintessential example of misuse and abuse of both the patent system and the judicial system. Grace's conduct is rife with instances of such abuse, and Grace's case is replete with evidence plainly supporting findings of invalidity and inequitable conduct under many theories. Any statement of the case must thus include these matters.

The trial court specifically found Grace, Merritt, and other Grace employees to be guilty of unclean hands in dealing with the Patent Office during prosecution of the

Mochel patent application [Finding No. 17], and the Court of Appeals, in affirming the lower court, found any protestation of innocence on Merritt's part to be "a dubious assumption on this record" (608 F.2d at 1219).

Grace's assertions of innocence on the part of its agents and employees have no business being included in a statement of facts. Grace is taking issue with the factual findings of the courts below, an argument which has no place before this Court.

The trial court found that Merritt had executed a false affidavit in prosecuting the Mochel patent application on behalf of Petitioner, and that other acts of Petitioner's employees and/or agents also amounted to unclean hands [Finding No. 17].

In the face of the trial court's findings and conclusions, affirmed and left undisturbed on appeal, Grace *cannot* now state that the Merrit affidavit was the sole basis upon which it was concluded that Grace was guilty of inequitable conduct before the Patent Office, that the Mochel patent was not invalid as a matter of law, and that the award of attorney's fees under 35 U.S.C. §285 was improper. The trial court found:

- The Mochel patent was invalid in view of prior art (the existence of which was not in issue at trial) comprising the Chapparal wheel, the E-T IV wheel, the Rader wheel, and the Trans-American wheels;
- Mochel based his wheel design upon the Chapparal wheel, yet Grace never disclosed knowledge of the Chapparal wheel to the Patent Office, and the arguments used by Mochel to gain allowance of the patent application could not have been presented to the Patent Office had the Patent Office been aware of the Chapparal wheel;

- The patent was invalid under 35 U.S.C. §102 because the differences between the patent and the closest pertinent prior art were insubstantial;
- The patent was invalid under 35 U.S.C. §103 because it is no more than what an ordinary designer would have done to modify the Chapparal wheel;
- The patent was invalid under 35 U.S.C. §171 because the differences between the prior art and the patent were functional rather than ornamental;
- Commercial success urged to the Patent Office by Grace was unproved, and any commercial acceptance of Grace's wheel resulted from heavy financing and promotion undertaken by Grace through its Appliance Division;

In addition, the trial court held:

- The patent was invalid because Grace and its employees Mochel, Merritt and Harness were guilty of unclean hands and/or fraud before the Patent Office;
- The award of attorney's fees was based upon many acts on the part of Grace, including—
  - (a) withholding information from the Patent Office concerning the Chapparal and Trans-American wheels;
  - (b) filing affidavits of Merritt which were inaccurate and misleading;
  - (c) misrepresenting prior art before the Patent Office, particularly, the Rader wheel;
  - (d) failure of Merritt to verify the information contained in his affidavit concerning advertising and promotion expenditures;
  - (e) the fact that Grace should have known that reckless and inaccurate representations as to sales would affect the Patent Office's consideration of the Grace application;
  - (f) over-reaching the patent in the courts and pursuing suit based upon a hopelessly invalid patent; and

  - (g) concealing the existence of relevant prior art during discovery.

Thus, Grace has created an artificial question upon which review of the rulings below is sought: this question cannot be dispositive of the present case unless we abandon all of the clearly correct rulings of the courts below.

There was more than ample evidence to be considered by the trial judge who, sitting as the trier of fact with respect to E-T, concluded that the Grace patent was invalid several times over, that Grace did more than simply present false evidence of commercial success to the Patent Office, and that the information withheld from the Patent Office as well as the information furnished to the Patent Office, taken together with Grace's bad faith, provided a basis for findings of invalidity and an award of attorneys' fees. The Court of Appeals acted properly in affirming.

Grace's employees and/or agents were not, as Grace states, innocent possessors of information relating to the patent application, working "somewhere" within Grace's corporate structure. Merritt was not only President and chief executive officer of Grace's Appliance Division, he was an attorney and a CPA, and was duty-bound thrice over to inquire into the accuracy of precisely the types of statements advanced by Grace to the Patent Office. It was an act of calculated recklessness on his part to fail to do so.

Mochel was the alleged inventor of Grace's wheel, who was directed to begin with the Chapparal wheel as a basis for his design, and who thus certainly knew that the Chapparal wheel played a significant part in the eventual

appearance of Grace's wheel, a fact which was assiduously kept from the Patent Office.

Harness was an attorney who dealt with the Patent Office on a regular basis and who was well aware of the high degree of candor required in matters before the Office.

These were no warehouse employees or minor managerial functionaries. As President and General Manager of Grace's Appliance Wheel Division, Merritt was intimately involved with the sale and advertising of Grace's Wire Mag wheels, as well as with every step of the prosecution of Grace's patent application. All were reported to Merritt. Moreover, the facts misstated by Merritt to the Patent Office were presented in response to specific inquiries by the Patent Examiner: these very misrepresentations were made in response to pointed inquiries from the Examiner and were relied upon by the Examiner, to grant the invalid patent.

Grace itself is a corporation of the highest sophistication, using batteries of attorneys within and without the corporation, all of whom knew better than to mislead the Patent Office and misuse the patent system and the judicial system, as was done.

Thus, Grace has not only misstated the record in its statement of the case, but has fabricated a question upon which certiorari is sought from an artificial and arbitrary twisting of the facts determined by the courts below.

REASONS FOR DENYING THE WRIT

Contrary to Grace's representations, the decision of the Court of Appeals in this case represents no departure from already well-settled law, raises no question of substance to form a basis for this Court's interest, and, in view of the many other bases supporting findings of invalidity and an award of attorney's fees, presents no question that would alter the outcome of the present case. *Rice* v. *Sioux City Memorial Park Cemetery,* 349 U.S. 70, 75 S.Ct. 614 (1955).

Moreover, even if resolution of the question raised could alter the decisions below, Grace's much touted conflict among the circuits with respect to conduct before the Patent Office is non-existent.

Persons dealing with the Patent and Trademark Office have an uncompromising duty of candor, particularly where dealing with matters peculiarly within the knowledge of the parties seeking patent protection. *Precision Instrument Manufacturing Company* v. *Automotive Maintenance Machinery Company,* 324 U.S. 806, 65 Sup.Ct. 993 (1945); see also *Monolith Portland Midwest Co.* v. *Kaiser Aluminum & Chemical Corp.,* 407 F.2d. 288 (9th Cir. 1969).

Contrary to Grace's assertions, the courts are uniform in finding inequitable conduct to include conduct short of fraud in dealings before the United States Patent and Trademark Office.

Recently, in *True Temper Corp.* v. *CF&I Steel Corp.,* 601 F.2d. 495 (10th Cir. 1979), the Tenth Circuit Court of Appeals reviewed decisions of the various circuits relating to inequitable conduct, and correctly determined:

> ". . . because of the strong public interest in high standards of disclosure to the Patent Office, it also has been said that it may suffice to show 'nothing more than that the misrepresentations were made in an atmosphere of gross negligence as to their truth' [Citation omitted].
>
> • • •
>
> Recklessness in making erroneous submissions to the Patent Office may also be sufficient to warrant a refusal to condone conduct before the Patent Office." [Citations omitted].

The findings of the trial court, as affirmed, at the very least establish such conduct and support the relief granted, and Grace has made no showing otherwise.

Certainly, *Pfizer, Inc.* v. *International Rectifier Corp.*, 538 F.2d 180 (8th Cir. 1976), *cert. den'd.* 429 U.S. 1040 (1977) provides no basis to depart from well-settled law. *Pfizer* simply held that questions of material fact remained which precluded summary judgment.

There were no such summary proceedings in the present case. Grace went to trial, presented its witnesses, its exhibits and all of its testimony to the trial judge, who was the trier of fact with respect to E-T.* The

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* Grace again misleads when it argues that Civil Action No. 74-2089-R, *W. R. Grace & Co., Inc.* v. *E-T Industries, et al.*, should, under some theory, be treated as a jury case, or that the motion brought under Rule 41(b) somehow precludes a trial judge from weighing the evidence as a trier of fact, and from making findings and conclusions thereon.

Interestingly, findings of invalidity and the award of attorneys' fees based upon Grace's conduct before the Patent Office would still have been proper even if the trial court had granted summary judgment in favor of E-T. See *Farmer Bros. Co.* v. *Coca-Cola Co.*, 384 F.Supp. 595 (C.D. Cal. 1974).

court's rulings were entered in response to a motion under Rule 41(b), Federal Rules of Civil Procedure, brought at the close of Grace's case. It is hard to see how any argument can be made that Grace was somehow cheated from an opportunity to present facts, witnesses, or exhibits. Postponing a decision by the trial court until E-T had presented its defense "which with reasonably efficient advocacy would [have done no] more than enlarge the record", would not have dictated any different result. *Barr* v. *Equitable Life Assurance Society,* 149 F.2d 634 (9th Cir. 1945).

In *Schnadig Corporation* v. *Gaines Manufacturing Company, Inc.,* 494 F.2d 383 (6th Cir. 1974), another case relied upon by Grace, the Sixth Circuit Court of Appeals refused to apply the doctrine of inequitable conduct where no showing was made that prior art was intentionally or negligently concealed, that the concealed art was known to the plaintiff, or that the art, while more pertinent, was not anticipatory or indicative of obviousness. As we have shown above, *every one of these factors, and more, were found to exist in the present case.* There is not the slightest suggestion that, had the present case been brought before the *Schnadig* court, that court would not have reached the same result as was reached by the Ninth Circuit Court of Appeals.

In *Rice* v. *Sioux City Memorial Park Cemetery,* 349 U.S. 70, 74, 75 S.Ct. 614, 616 (1955), Mr. Justice Frankfurter wrote:

> "A federal question raised by a Petitioner may be 'of substance' in the sense that, abstractly considered, it may present an intellectually interesting and solid problem. But this Court does not sit to satisfy a scholarly interest in such issues. Nor does it sit for the benefit of the particular litigants. [citations omitted]. 'Special and important reasons' imply a reach to a problem beyond the academic or the episodic."

Grace has placed no question "of substance" before this Court by its petition, and this Court's prior and well-established procedures deny access to a party whose only ground for seeking this Court's review is dissatisfaction with the outcome of proceedings in a lower tribunal, rather than any important federal question governing that outcome.

ARGUMENT

I. THE RESULT IN THE PRESENT CASE IS SUPPORTED INDEPENDENTLY ON GROUNDS OTHER THAN THOSE URGED BY GRACE.

The trial court found a host of reasons why, at law, the Grace patent was invalid, and why an award of attorneys' fees under 35 U.S.C. §285 was justified. See E-T's Corrected Statement of the Case, *supra.*

Grace's assertion that Merritt's conduct was the sole basis upon which Grace was found liable for inequitable conduct before the Patent Office conveniently overlooks the plain fact that the Court of Appeals left undisturbed the findings of the trial court with respect to Grace's failure to call the patent examiner's attention to the existence of relevant prior art known to Grace [Finding No. 17(a)], the mischaracterization of certain items of prior art by Grace while prosecuting the Mochel patent application [Finding No. 17(c)], and the effect of the distributors' affidavits and Merritt affidavits presented to the Patent Examiner, namely gaining allowance of patent application [Conclusion No. 8].

It is a long-settled principle of review based upon certiorari that lower court findings will not be reviewed where there are circumstances to support said findings independent of the question upon which certiorari is urged. See *Rice* v. *Sioux City Memorial Park Cemetery,* 349 U.S. 70, 75 S.Ct. 614 (1955), and cases cited thereat. It is an equally well-settled principle of review by certiorari that the Supreme Court is not an advisory body and does not sit for the benefit of the litigants but rather for the reso-

lution of questions of substance for which there are "special and important reasons" for resolving such questions. *Rice,* supra.

As an example, the trial court found that Grace had withheld the Chapparal wheel from the Examiner [Finding No. 17(d)], that the differences urged by Grace between the references cited by the Patent Office and the patent application could not have been successfully argued had the Patent Office known of the existence of the Chapparal wheel [Conclusions Nos. 4 and 7], and that the named inventor of Grace's wheel had knowledge from the very beginning that the Chapparal wheel would be relevant to any consideration of the Grace patent application [Finding No. 11].

These findings alone would have furnished a basis upon which attorney's fees could be properly awarded, even on summary judgment, let alone under Rule 41(b).

The trial court also had the opportunity to hear the testimony of the witnesses first hand, to weigh the testimony of each witness, to determine the credibility of the testimony elicited, and to make its findings of fact and conclusions of law against this background.

In its review of the trial court's conduct, the Court of Appeals found no abuse of discretion, no prejudice on the part of Grace, and no errors of law with respect to the holdings of the trial court.

Based upon such a record, it is clear that no request for certiorari should be allowed in this case.

II. NO FEDERAL QUESTION OF ANY IMPORT IS RAISED BY GRACE IN ITS PETITION.

As discussed hereinabove, the questions presented by Grace neither reflect the actual issues present in this case and upon which the rulings of the lower courts were based, nor do they raise any other grounds for review by certiorari.

If we were to restate the questions presented by Grace in correct terms, and consistent with the issues argued below, the questions would reduce to one of whether or not a corporation can be precluded from enforcing an issued patent where it is demonstrated that agents or employees of the corporation, playing a major role in the corporation's efforts to achieve allowance of the patent, failed to submit items of prior art peculiarly within their knowledge to the Patent Office, and submitted evidence of commercial acceptance with a calculated reckless disregard for verifying the accuracy of the information submitted.

The courts below have clearly answered this question in the affirmative, well within the prior guidelines set down by this Court and the courts of the individual circuits. In addition, the Court of Appeals correctly determined that the motivation for Grace's acts was to obtain allowance of the patent, and that, in fact, the patent was issued based precisely upon Grace's blithe and cavalier misrepresentations to the Patent Office. In so doing, the Court of Appeals left undisturbed the trial court's finding of fraud [Conclusion No. 7].

Contrary to Grace's assertions, part of the court of Appeals affirmance was based upon Grace's reckless conduct, similar to that described in *Monolith Portland Midwest Company* v. *Kaiser Aluminum and Chemical Corporation,* 407 F.2d 288, 297 (9th Cir. 1969) holding it to be

sufficient that Grace's "course of conduct *** reveals calculated recklessness about the truth".

This interpretation has been held to be correct when evaluating the quality of a party's conduct before the Patent Office. In *True Temper Corp.* v. *CF & I Steel Corp.*, 601 F.2d 495 (10th Cir. 1979), the Court of Appeals for the Tenth Circuit reviewed the many grounds urged for finding inequitable conduct on the part of a party before the Patent Office and concluded:

> "It is, of course, well established that the exercise of fraud, inequitable conduct, or bad faith in prosecution of a patent application before the Patent Office may result in unenforcability of the patent ultimately issued [citations omitted]. This rule of equity stems from the 'paramount interest [of the public] in seeing that patent monopolies spring from backgrounds free from fraud or other inequitable conduct' [citing *Precision Instrument Manufacturing Company* v. *Automotive Maintenance Machinery Company*, 324 U.S. 806, 816, 65 Sup.Ct. 993, 998 (1945)].
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>
> From our consideration of the authorities and of the paramount public interest in 'seeing that patent monopolies spring from backgrounds free from fraud or other inequitable conduct and that such monopolies are kept within their legitimate scope', [citations omitted], we conclude that intentional fraud on the Patent Office is not the only ground for withholding enforcement of patents.
>
> "We feel instead that a standard like that stated by the Court of Customs and Patent Appeals in *Norton* v. *Curtiss, supra.*, 433 F.2d at 796 should be applied, also refusing to enforce patents where 'misrepresentations [are] made in an atmosphere of gross negligence as to their truth', [citation omitted], or where there is reckless conduct in representations to the Patent Office, as some cases say."

Any review of the grounds upon which the various circuits uphold relief for the inequitable conduct of a party before the Patent Office clearly demonstrates that well-settled grounds exist for the decisions of the courts below, that such grounds are entirely consistent with the rationale and standards set forth by the various courts, and that any attempt by Grace to construct an artificial inconsistency of opinion among the circuits rests upon semantic manipulation rather than a clear and logical consideration of the rule regarding inequitable conduct and the reasons behind the rule.

However and whatever Grace argues, it cannot be denied that, apart from the fraud that occurred, Grace's conduct was inequitable, that Grace acted with calculated recklessness in discharging its obligations before the Patent Office, that it deceived the Patent Office into issuing an invalid patent, that it enabled Grace to unfairly and unwarrantedly bring suit and stretch the ill-gotten patent against parties later found innocent of infringement, and that it amounted to no more than a thinly veiled attempt by Grace to secure exclusive rights where none should properly have been granted.

CONCLUSION

It has traditionally been the role of this Court to deny certiorari in cases wherein the decisions urged by the lower courts may be supported by the determination of facts and issues other than those argued in the Petition for Writ of Certiorari. No clearer occasion for the invocation of this rule can be found than in the present case.

Grace has raised no important federal questions worthy of this Court's attention, has demonstrated no prejudice, and has failed to establish that the lower court proceedings were in any way incomplete, incorrect, or unsupported amply by fact and by law. Accordingly, Grace's Petition for Writ of Certiorari should be denied.

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IN THE

Supreme Court of the United States

OCTOBER TERM, 1979

NO. 79-1533

W. R. GRACE & CO., INC., a corporation,
Petitioner,

vs.

E-T INDUSTRIES, INC., and PYRAMID ENTERPRISES,
Respondents.

* * *

W. R. GRACE & CO., INC., a corporation,
Petitioner,

vs.

WESTERN U.S. INDUSTRIES, INC., a corporation,
Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT

BRIEF OF RESPONDENT WESTERN U.S. INDUSTRIES, INC. IN OPPOSITION

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INDEX

	PAGE
OPINIONS BELOW	2
JURISDICTION	2
QUESTIONS PRESENTED	2
STATEMENT OF THE CASE	2
REASONS FOR DENYING THE WRIT	4
1. Petitioner Misstates the Holding of the Court Below.	4
2. The Decision of the Court Below Is In Accord with the Precedent of This Court and of Other Circuits	5
3. Petitioner Has Presented No Argument Whatsoever in Support of the Purported Second "Question Presented"	7
CONCLUSION	8

TABLE OF AUTHORITIES CITED

CASES — PAGE

Acme Precision Products, Inc. v. American Alloys Corp., 422 F.2d 1395 (8th Cir. 1970) 6

A. H. Emery Co. v. Marcan Products Corp., 389 F.2d 11 (2d Cir.), *cert. denied*, 383 U.S. 385 (1968) 7

Beckman Instruments, Inc. v. Chemtronics, Inc., 428 F.2d 555 (5th Cir.), *cert. denied*, 400 U.S. 956 (1970) 5

International Telephone & Telegraph Corp. v. Raychem Corp., 538 F.2d 453 (1st Cir.), *cert. denied*, 429 U.S. 886 (1976) 7

Monolith Portland Midwest Co. v. Kaiser Aluminum & Chemical Corp., 407 F.2d 288 (9th Cir. 1969) 4, 5, 7

Monsanto Co. v. Rohm & Haas Co., 456 F.2d 592 (3rd Cir.), *cert. denied*, 407 U.S. 934 (1972) 5

Parker v. Motorola, Inc., 524 F.2d 518 (5th Cir. 1975), *cert. denied*, 425 U.S. 975 (1976) 6

Pfizer, Inc. v. International Rectifier Corp., 538 F.2d 180 (8th Cir. 1976), *cert. denied*, 429 U.S. 1040 (1977) 5

Precision Instrument Manufacturing Co. v. Automotive Maintenance Machinery Co., 324 U.S. 806 (1945) 6

True Temper Corp. v. CF&I Steel Corp., 601 F.2d 495 (10th Cir. 1979) 6, 7

W. R. Grace & Co. v. Western U.S. Industries, Inc., 608 F.2d 1214 (9th Cir. 1979) 2

Xerox Corp. v. Dennison Manufacturing Co., 322 F.Supp. 963 (S.D.N.Y. 1971) 7

STATUTES

28 U.S.C. § 1254(1) 2

REGULATIONS

37 C.F.R. § 1.56(a) 7

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ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT

BRIEF OF RESPONDENT WESTERN U.S. INDUSTRIES, INC. IN OPPOSITION

Respondent Western U.S. Industries, Inc. ("Western") respectfully requests that this Court deny the Petition for a Writ of Certiorari to review the judgment and opinion of the United States Court of Appeals for the Ninth Circuit in these consolidated cases.

OPINIONS BELOW

The opinion of the United States Court of Appeals for the Ninth Circuit, reported at 608 F.2d 1214 (1979), appears in the Appendix to the Petition at 24.[1] The opinion of the United States District Court for the Central District of California, reported unofficially at 187 U.S.P.Q. 40 (1975), appears in the Appendix to the Petition at 6.

JURISDICTION

The judgment and opinion of the United States Court of Appeals for the Ninth Circuit was entered on October 9, 1979. A petition for rehearing and suggestion for hearing *en banc* was denied by the Court of Appeals on December 26, 1979, and the petition herein was filed within 90 days of that date. Petitioners have invoked this Court's jurisdiction under 28 U.S.C. § 1254(1).

QUESTIONS PRESENTED

Respondent Western objects to the Petitioner's statement of the Questions Presented. As is argued below, the Petitioner has misstated the basis for the Court of Appeals' decision, and the questions set forth in the Petition are not raised in this case.

STATEMENT OF THE CASE

The Petitioner's summary description of the opinion of the Court of Appeals for the Ninth Circuit in this case is incomplete and inaccurate in several important respects. The Petitioner has omitted mentioning facts found by the District Court on which the Court of Appeals relied in reaching its decision. The history

[1] Hereinafter, citations to the opinion below will be given as "608 F.2d at ...., Petition at A....."

of the efforts of Petitioner W. R. Grace & Co. ("Grace") to have a wheel design patent issued is crucial to an understanding of the Ninth Circuit's decision.

After its initial patent application had been rejected, Grace responded by submitting sales figures to the Patent Office in an effort to show that its wheel design had achieved commercial success. The patent examiner again rejected the application, stating that while commercial success of a design might be relevant to patentability in close cases, the apparent sales success of Grace's wheel might be explained by factors other than novelty of design. 608 F.2d at 1216, Petition at A 25-26.

On receiving this second rejection, Grace again responded. The materials submitted by Grace consisted of (1) five affidavits from distributors of Grace's wheel, asserting that these distributors had "no particular advertising campaign as such" for the wheel, and (2) an affidavit from Floyd Merritt, president of Grace's wheel division, stating that "[o]ur major advertising so far has been a one-page ad in *Car Craft*, when we first offered the Wire Mag wheel, in 1972." 608 F.2d at 1216, Petition at A 26. On the basis of these materials, the patent examiner reversed his prior decisions and allowed the patent to issue. 608 F.2d at 1217, Petition at A 27.

The trial court found that the Merritt affidavit was false, and the Ninth Circuit affirmed that holding. The affidavit claimed that one insignificant ad had been purchased when in fact eighteen different ads had been placed in various magazines, several of which received circulation of over 600,000. 608 F.2d at 1216-17, Petition at A 26-27.

The Petitioner's statement of the case omits all reference to the legal standard applied by the Court of Appeals in determining that submission of the Merritt affidavit to the Patent Office constituted inequitable conduct such as would bar enforcement of the patent. The Court of Appeals' opinion relies on prior Ninth Circuit authority for the proposition that fraud on the Patent Office is shown where an applicant engaged in a

" 'course of conduct [which] reveals a calculated recklessness about the truth.' " 608 F.2d at 1218, Petition at A 31, *quoting Monolith Portland Midwest Co. v. Kaiser Aluminum & Chemical Corp.*, 407 F.2d 288, 297 (9th Cir. 1969). Applying that standard of conduct to the facts found by the trial court, the court below held that "Grace clearly must answer for intentional or reckless misrepresentation as a matter of law," and denied enforcement of the patent. 608 F.2d at 1218, Petition at A 32.

REASONS FOR DENYING THE WRIT

A Writ should not issue in this case because (1) the holding of the court below is not correctly stated by Petitioner; (2) the decision of the Ninth Circuit is fully in accord with the precedent of this Court and of other circuits; and (3) Petitioner has presented no argument whatsoever in support of its purported second "Question Presented."

1. Petitioner Misstates the Holding of the Court Below.

The Petitioner has misstated the basis of the Ninth Circuit's decision. The Court of Appeals did not apply a strict liability standard, as petitioner claims, but rather determined, based on the trial court's findings of fact, that Grace's conduct in making false representations to the Patent Office was intentional or at least reckless.

The first question framed by Grace characterizes the Ninth Circuit's opinion as holding that a patent could be held unenforceable where "none of the corporation's agents or employees . . . acted in bad faith or even with calculated recklessness." Brief of Petitioner at 2. This was not the standard applied. The Court of Appeals focused on the conduct of Grace, the actual patent holder, and considered Grace's statement to the Patent Office that its advertising had consisted of only one ad, in contrast with the trial court's

finding that Grace had made significant advertising expenditures. Based on these facts, the Court of Appeals concluded that Grace clearly must answer for intentional or reckless misrepresentation as a matter of law." 608 F.2d at 1218, Petition at A 32. The opinion of the court below does not even hint at a strict liability standard, but rather follows *Monolith Portland Midwest Co. v. Kaiser Aluminum & Chemical Corp.*, 407 F.2d 288, 297 (9th Cir. 1969), in holding that fraud on the Patent Office is established when the applicant's "course of conduct . . . reveals a calculated recklessness about the truth." 608 F.2d at 1218, Petition at A 31. While Grace might dispute the correctness of the Court of Appeal's application of the intentional or reckless misconduct standard to the facts of this case, such a contention goes only to the correctness of this case alone and is not a question worthy of review on a Writ of Certiorari.

Moreover, the holding of the court below should be placed in the context of the patent's having been twice rejected and where the statements found false were the sole basis on which the company was seeking a reversal by the Patent Office. The courts have generally placed a stricter burden of accuracy on the applicant after rejection since there is no basis for the company not taking special care on the narrow factual issues on which reversal is sought. *See, e.g., Monsanto Co. v. Rohm & Haas Co.*, 456 F.2d 592, 599 (3d Cir.), *cert. denied*, 407 U.S. 934 (1972); *Beckman Instruments, Inc. v. Chemtronics, Inc.*, 428 F.2d 555, 565-66 (5th Cir.), *cert. denied*, 400 U.S. 956 (1970).

2. The Decision of the Court Below Is In Accord with the Precedent of This Court and of Other Circuits.

The Petitioner argues that the decision of the court below is in conflict with the opinion of the Eighth Circuit in *Pfizer, Inc. v. International Rectifier Corp.*, 538 F.2d 180 (8th Cir. 1976), *cert. denied*, 429 U.S. 1040 (1977). As stated above, however, the standard for fraud applied by the Ninth Circuit in this case requires at least reckless conduct. This is fully consistent with

the legal standards set forth by the Eighth Circuit. In *Pfizer* the court required that "the misconduct must be accompanied by 'some element of wrongfulness, willfulness, or bad faith.'" *Id.* at 186, *quoting Parker v. Motorola, Inc.*, 524 F.2d 518, 535 (5th Cir. 1975), *cert. denied*, 425 U.S. 975 (1976). The "element of wrongfulness" required by the Ninth Circuit is recklessness concerning the truth of the statements made.

Far from being in conflict with Eighth Circuit authority, the decision of the court below relies on an Eighth Circuit decision, *Acme Precision Products, Inc. v. American Alloys Corp.*, 422 F.2d 1395 (8th Cir. 1970), as precedent for inputing Grace's employees' knowledge of the magazine ads and other promotional materials to Grace itself, thereby making Grace's misrepresentations at least reckless if not intentional. 608 F.2d at 1219, Petition at A 32. In *Acme Precision Products,* the Eighth Circuit applied the "well settled principle that knowledge of officers and key employees of a corporation, obtained while acting in the course of their employment and within the scope of their authority, is imputed to the corporation itself," in holding that a corporation's omission of key facts known to one of its former employees constituted fraud on the Patent Office. 422 F.2d at 1398, 1398-1400.

The decision of the court below is in accord with the decisions of this Court, and follows a long line of cases from other circuits. In describing the type of conduct which should lead a court to decline to enforce a patent, this Court has specifically rejected an overly rigid formulation, referring instead to "[a]ny willful act . . . which rightfully can be said to transgress equitable standards of conduct. . . ." *Precision Instrument Manufacturing Co. v. Automotive Maintenance Machinery Co.*, 324 U.S. 806, 815 (1945). Given this mandate, the courts of the various circuits have applied flexible standards of conduct, but have consistently refused to enforce patents obtained by misrepresentations which are intentional or reckless. *See, e.g., True Temper Corp. v. CF & I Steel Corp*, 601 F.2d 495 (10th Cir. 1979) (enforcement of patent denied based on

finding of recklessness or gross negligence relating to nondisclosure of material testing information); *International Telephone & Telegraph Corp. v. Raychem Corp.*, 538 F.2d 453, 461 (1st Cir.), *cert. denied*, 429 U.S. 886 (1976) (some element of wrongful conduct—intentional misrepresentation or inequitable, reckless, or grossly negligent conduct—is a necessary predicate to rendering a patent unenforceable in the courts); *Monolith Portland Midwest Co. v. Kaiser Aluminum Chemical Corp.*, 407 F.2d 288 (9th Cir. 1969) (fraud on the Patent Office may be found where applicant's course of conduct reveals a calculated recklessness about the truth); *A. H. Emery Co. v. Marcan Products Corp.*, 389 F.2d 11, 17-18 (2d Cir.), *cert. denied*, 393 U.S. 835 (1968) (inventor's reckless conduct in signing oath required by Patent Office would not be condoned in a suit for patent infringement); *Xerox Corp. v. Dennison Manufacturing Co.*, 322 F.Supp. 963, 969 (S.D.N.Y. 1971) (enforcement of patent should be barred when applicant is guilty of fraud, willfulness or recklessness indicating a disregard for his duty of frankness).

The legal principles applied by the Ninth Circuit comport with precedent of this Court, and do not conflict with the law of other circuits.[2]

3. Petitioner Has Presented No Argument Whatsoever In Support Of The Purported Second "Question Presented."

Petitioner presents no argument whatsoever in support of its request for a Writ of Certiorari on the second issue it raises, and the question as stated has no relation at all to the Ninth

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[2] Petitioner also contends that the Court of Appeals' decision is in conflict with a Patent Office regulation, 37 C.F.R. § 1.56(a). Brief of Petitioner at 10. That regulation, however, was first effective on March 1, 1977, and therefore cannot be applied as a standard to judge Grace's conduct in 1973, when the Merritt affidavit was submitted. Moreover, the regulation was intended as a codification of prior case law. *See True Temper Corp. v. CF&I Steel Corp.*, 601 F.2d 495, 504 n.9 (10th Cir. 1979).

Circuit's opinion. Petitioner's second "Question Presented" refers to the enforceability of a patent when information which "would not have automatically established the patent's invalidity" is omitted from statements to the Patent Office. In this case, however, false information about advertising was affirmatively submitted, and as a result the patent examiner reversed his earlier ruling concerning patentability. The Petitioner's second asserted question for review simply does not exist within the context of the decision below.

CONCLUSION

For the reasons stated above, Respondent Western respectfully requests this Court to deny the Petition for Writ of Certiorari to the United States Court of Appeals for the Ninth Circuit.

DATED: April 25, 1980

Respectfully submitted,

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